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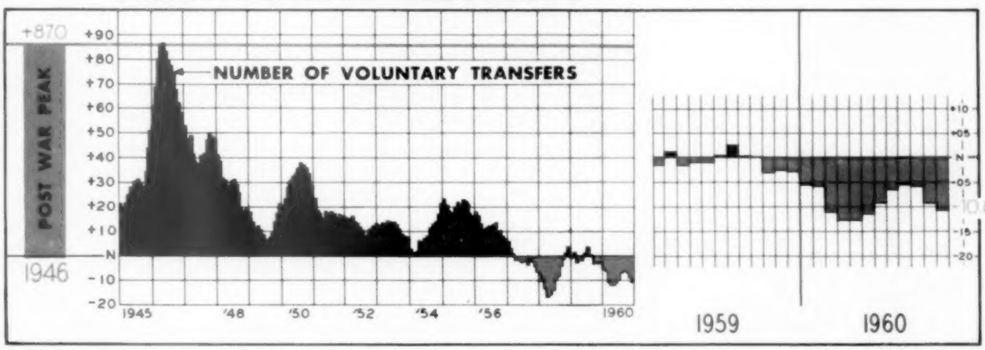
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

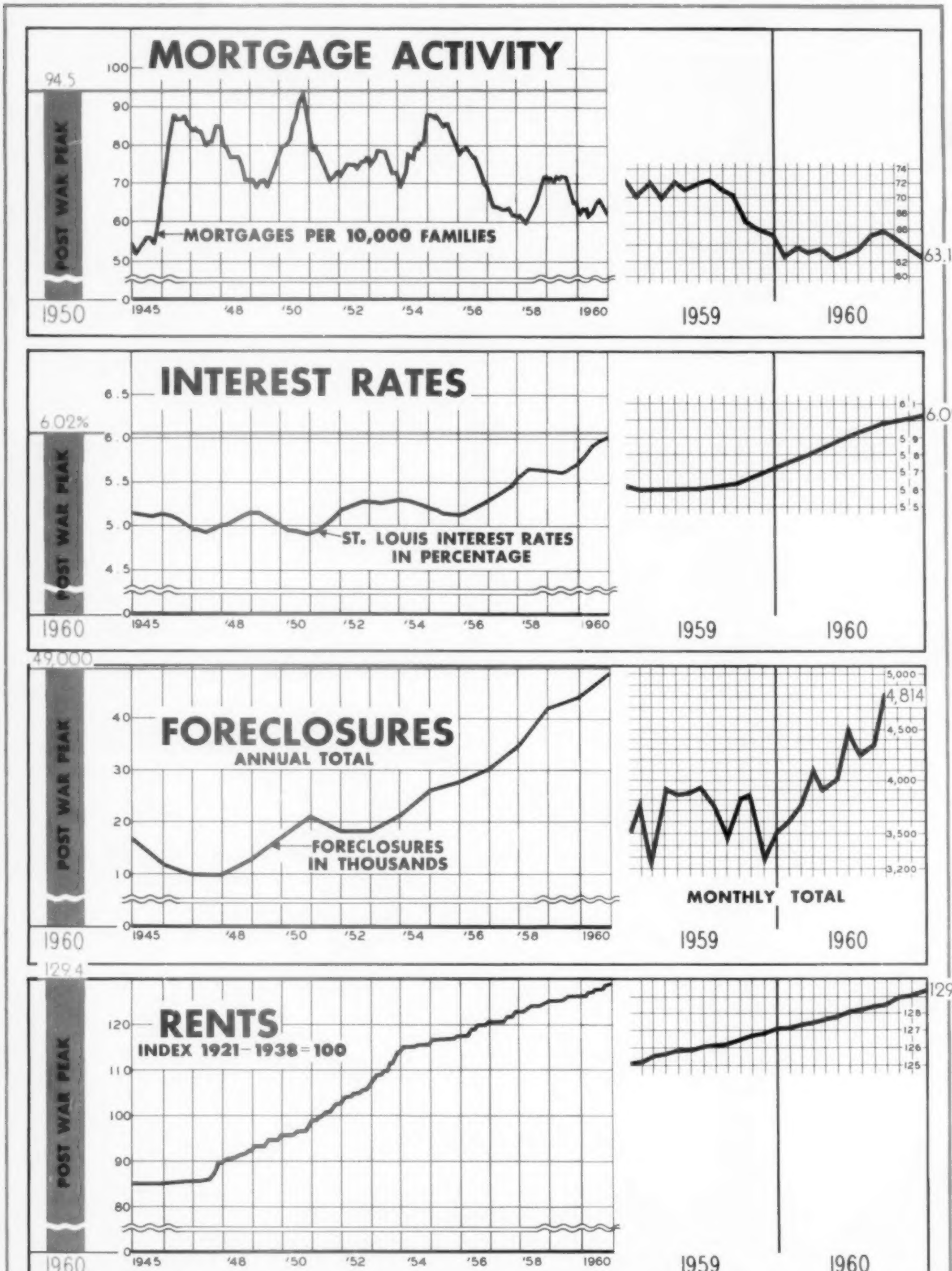
REAL ESTATE IN 1961

THE Real Estate Activity chart below shows graphically the variations in the number of voluntary real estate sales in major cities in the United States since 1945. The straight line marked "N" represents the average number of voluntary transfers of real estate that would normally take place each month were it possible to eliminate entirely the periodic swinging of the pendulum from the extreme of feverish activity to the other extreme of frigid inaction. This line takes into consideration such factors as the increase in the number of families and such other factors of growth that have gradually been increasing the average volume of business. The blue areas above the line represent periods of real estate booms; the red areas below the line represent periods of inactivity. The scale at the left end of the chart shows the percentage above or below normal. On the right side of the chart is a detailed blow-up of the monthly fluctuations during 1959 and 1960.

This chart reveals that the postwar peak in Real Estate Activity was in 1946, when real estate sales were 87 percent above the long-term normal. The volume of sales has steadily declined since then until they now are 10.8 percent below the level expected with growth. Because of the lack of consumer

REAL ESTATE ACTIVITY



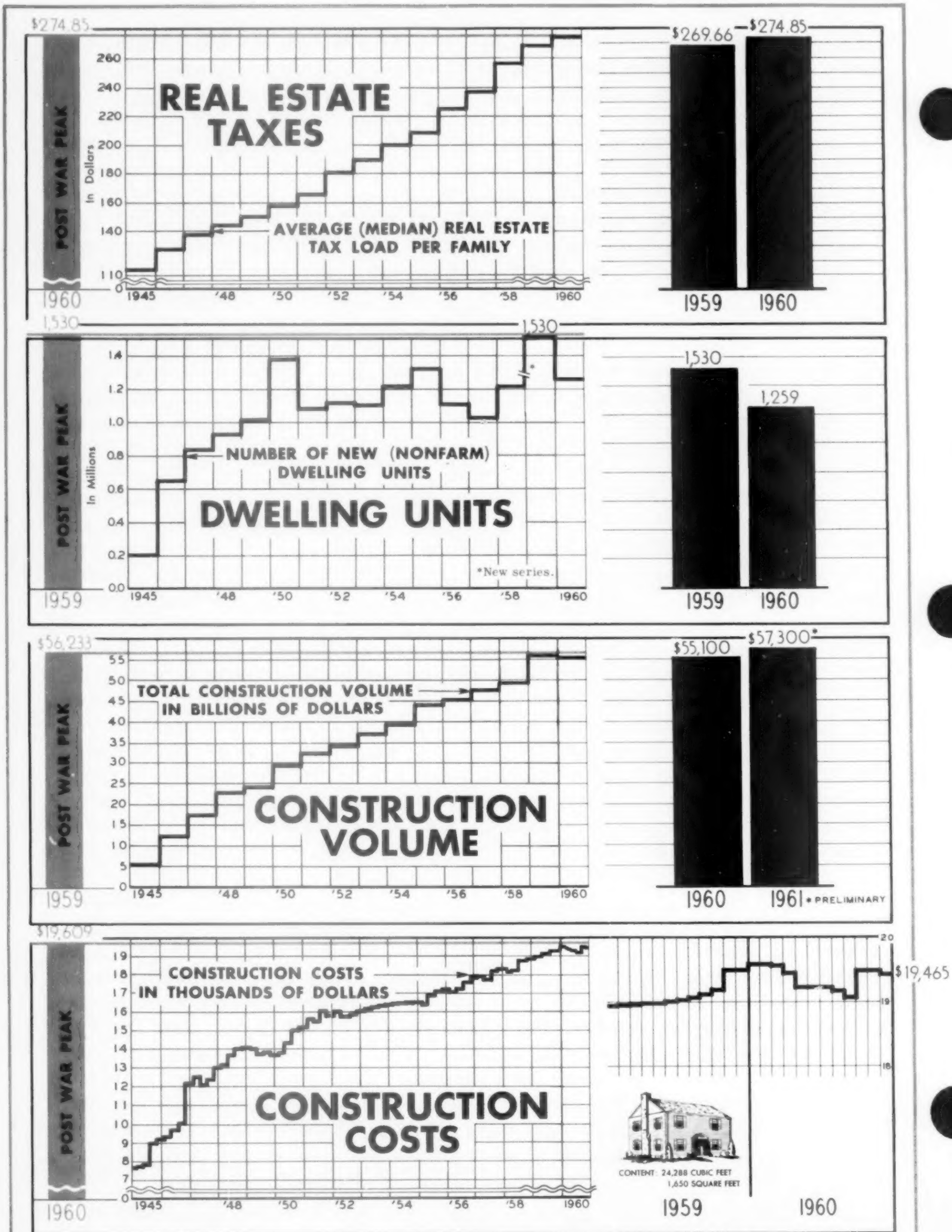

MORTGAGE ACTIVITY
MORTGAGES PER 10,000 FAMILIES
POST WAR PEAK
94.5
1950
63.1
INTEREST RATES
ST. LOUIS INTEREST RATES IN PERCENTAGE
POST WAR PEAK
6.02%
1960
6.02%
FORECLOSURES
ANNUAL TOTAL
FORECLOSURES IN THOUSANDS
POST WAR PEAK
49,000
1960
4,814
MONTHLY TOTAL
RENTS
INDEX 1921–1938=100
POST WAR PEAK
129.4
1960
129.4
1945
'48
'50
'52
'54
'56
'58
1960
1959
1960

confidence, vacancy experience, mortgage interest rates, and general business, there is no immediate prospect of a resumption of the boom. We are not ready for it yet; some additional readjustment is still ahead of us.

Mortgage Activity is charted at the top of the opposite page. The number of mortgages recorded in major cities in the United States is divided by the tens of thousands of families in each of the cities to get the blue line representing the number of mortgages per 10,000 families. Since most real estate transactions involve a mortgage, the fluctuations in Mortgage Activity tend to follow those of Real Estate Activity. With the possible exception of the last part of the year, the average rate for 1961 will probably not exceed 64 recordings per 10,000 families.

In the second chart on the opposite page we have graphed the fluctuations in the recorded interest rate on mortgages in St. Louis from 1945 to the present. On the right of the chart is a blow-up of the quarterly fluctuations during 1959 and 1960. From a rate of 5.6 percent in June the cost of mortgage money has risen to the postwar high of 6.02 during the last quarter of 1960. The rate represents the interest cost on home loans, since the majority of mortgages recorded in St. Louis are of that type. It is not, however, the effective market rate. First, because of the advanced commitment practice, a recorded rate is 2 to 6 months behind the market. The second reason is that recorded rates do not reveal discounts, if any, on the face value, which would increase the effective rate of interest. Although 6 percent seems high in view of the postwar experience, it is not. When they are traced back to 1875, these interest rates have always been just a very little below or above 6 percent, except for the years 1935-55. We have had great construction booms, as during the 1920's, with interest rates above 6 percent. Therefore, interest rates will not represent as much a deterrent to construction as is often believed. When people get used to them they will realize that interest rates will probably remain at the current levels, despite greater availability of mortgage money, because of the current international situation. The United States has lower interest rates than many other countries. Any further reduction in these rates will worsen the gold outflow.

In the Foreclosure chart on the opposite page we have graphed the annual number of nonfarm foreclosures from 1945 to 1960, and the monthly totals during 1959 and 1960. Within the last year the number of foreclosures per month increased from about 3,500 to over 4,500. Although foreclosures have been increasing rapidly since 1957, the annual total of 49,000 during 1960 is only 20 percent of the 1933 experience of 252,400. Even a period of falling real estate prices, poor general business, or both should not force as many foreclosures as were experienced in the last depression. The main reasons are the introduction of the monthly payoff loan rather than the three- to five-year mortgage loans, and political protection to the 60 percent of American families owning their own homes.


$274.85
POST WAR PEAK
1960
REAL ESTATE TAXES
In Dollars
AVERAGE (MEDIAN) REAL ESTATE TAX LOAD PER FAMILY
1945 '48 '50 '52 '54 '56 '58 1960
$269.66
$274.85
1959 1960
1,530
POST WAR PEAK
1959
In Millions
NUMBER OF NEW (NONFARM) DWELLING UNITS
DWELLING UNITS
*New series.
1945 '48 '50 '52 '54 '56 '58 1960
1,530
1,259
1959 1960
$56,233
POST WAR PEAK
1959
TOTAL CONSTRUCTION VOLUME IN BILLIONS OF DOLLARS
CONSTRUCTION VOLUME
1945 '48 '50 '52 '54 '56 '58 1960
$55,100
$57,300*
1960 1961 * PRELIMINARY
$19,609
POST WAR PEAK
1960
CONSTRUCTION COSTS IN THOUSANDS OF DOLLARS
CONSTRUCTION COSTS
1945 '48 '50 '52 '54 '56 '58 1960
$19,465
CONTENT: 24,288 CUBIC FEET
1,650 SQUARE FEET
1959 1960

Rents, as indexed in the chart on page 66, continue to creep upward. Although they are now 129.4 percent of their 1938 level, other prices have increased so much that rents have lost over 63 percent of their purchasing power since 1938. Rents are not too high; they are entirely too low. They will continue to creep up during the coming year.

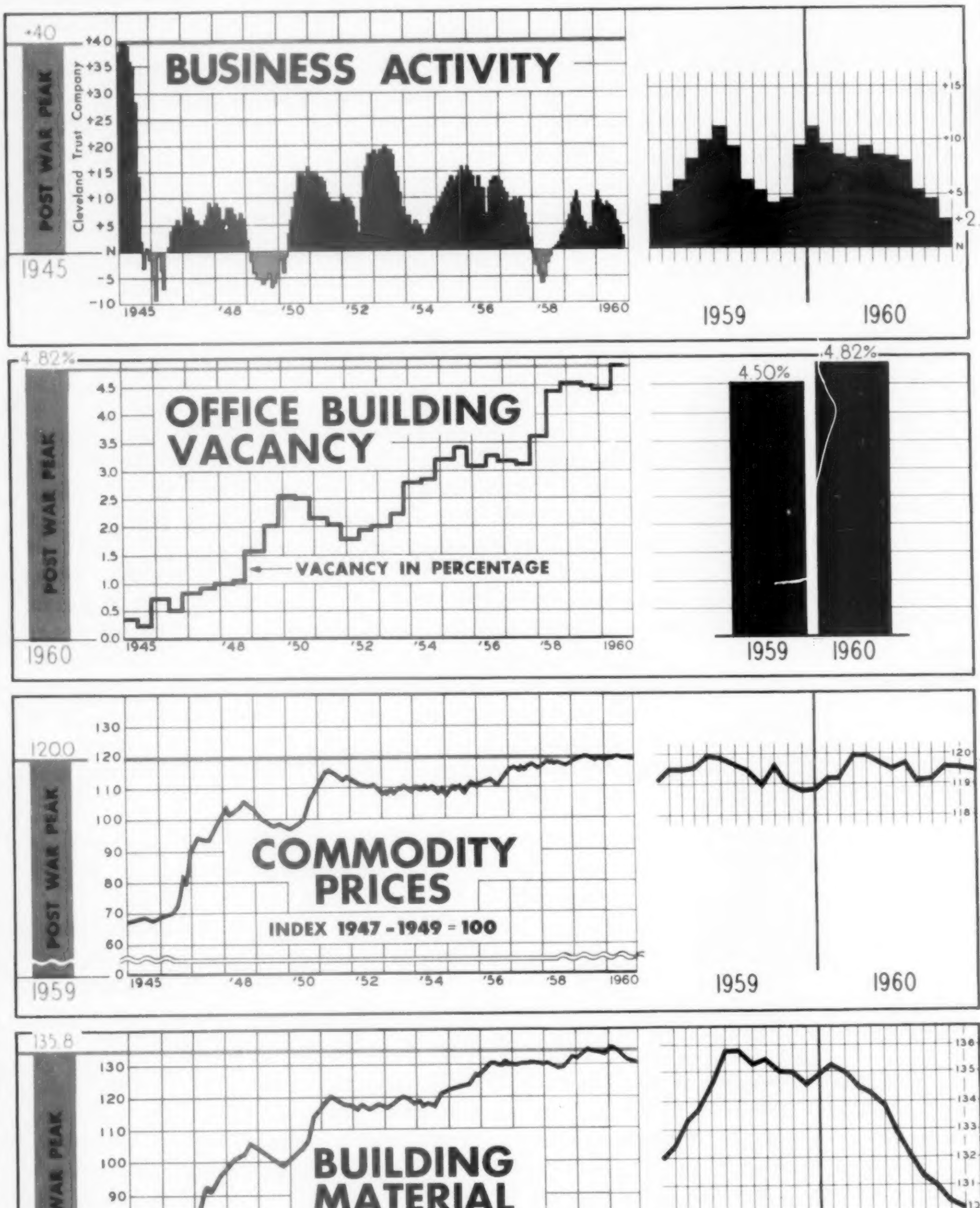
The average (median) real estate tax load in the principal cities of the United States is now $274.85. Fifty percent of the cities we survey have heavier taxes and fifty percent have lighter taxes. Real estate taxes have increased because people are demanding more and better services from their Government, and because the State and Federal Governments have taken most of the sources of revenue, leaving the property tax as the local governments' main source of income. New suburban areas will increase their taxes most, since they have little capital equipment to build upon.

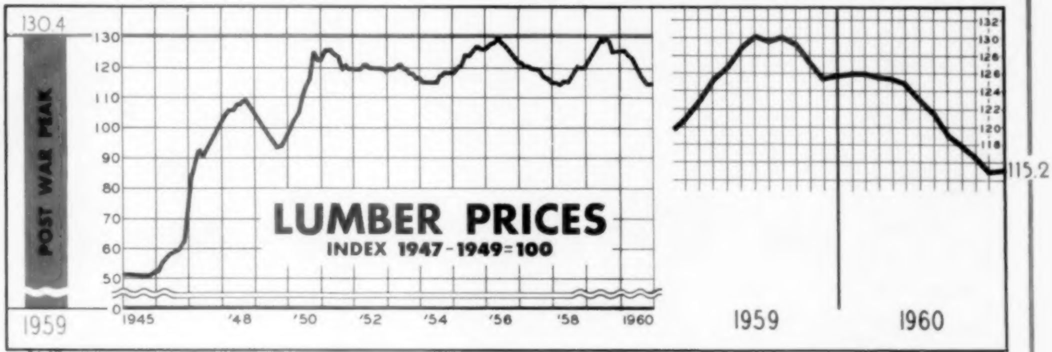
The Dwelling Units chart on the opposite page is a graph of the annual number of nonfarm dwelling units publicly and privately built from 1945 through 1960. The two bars on the right compare the annual totals for 1959 and 1960. You cannot compare the 1959 and 1960 housing starts with those in any of the prior years. It seems that thousands of units built between 1950 and 1956 hadn't been counted and the Census Bureau took over to see if it could count more accurately with its greater sampling resources than the Bureau of Labor Statistics. Any way that you count the starts during 1960, they were fewer than they were during 1959 -- about 18 percent fewer. Because of increasing unemployment consumers are not too confident about the future. They can take their time and be choosy about the house they buy because 3.5 percent of all houses are vacant and available for rent or sale. Therefore, we will not exceed in 1961 the production of homes built in 1960 -- 1,259,200 privately and publicly built nonfarm dwelling units.

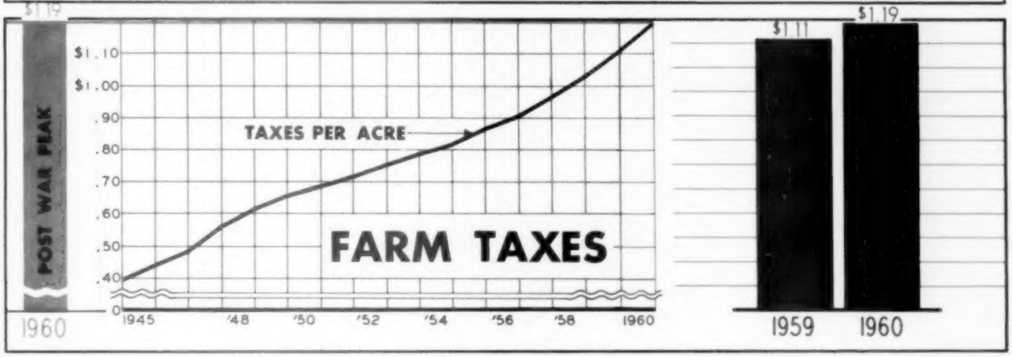
The next chart is a graph of the annual dollar volume of all construction from 1945 to 1960. The two bars on the right show the dollar volume during 1960 and the volume of new construction to be put in place during 1961 estimated by the Department of Commerce. For the reasons mentioned previously, we believe this estimate of $57.3 billion to be overoptimistic. Although road and bridge construction will exceed a year ago, new private building will be off. Builders should put the pressure on their modernization and repair market.

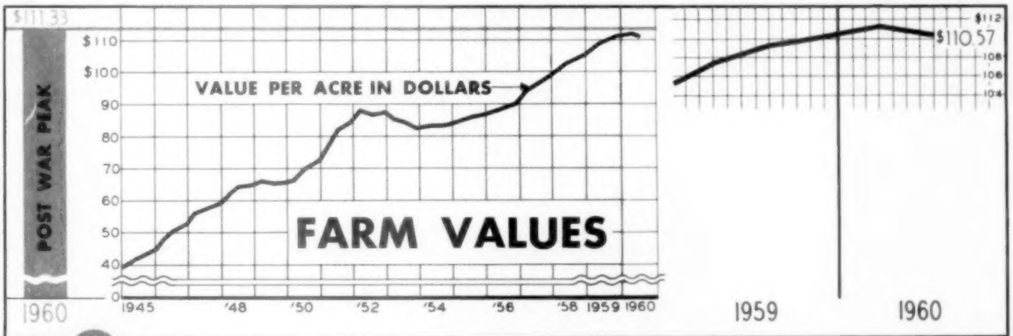
The chart opposite shows the variations in the cost to build a standard six-room frame house from 1945 to 1960 by months. The blow-up on the right details the monthly fluctuations during 1959 and 1960. These figures show the mid-year drop in costs that was a result of lower millwork costs. In September, however, increasing labor costs almost offset these reductions. Today it costs $19,465 to build the standard six-room frame house. This is a $113 drop from last year. Labor rates will continue to increase since many contracts provide for increases at specific times. Increased efficiency, however, should keep the overall cost of building a house from rising.

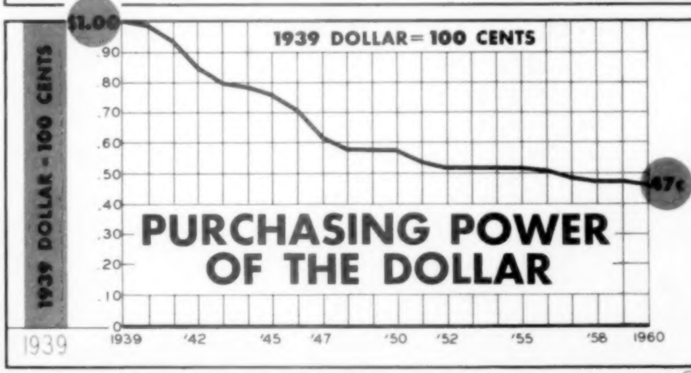
(cont. on page 72)


BUSINESS ACTIVITY
POST WAR PEAK
+40
1945
Cleveland Trust Company
+40
+35
+30
+25
+20
+15
+10
+5
N
-5
-10
1945
'48
'50
'52
'54
'56
'58
1960
+15
+10
+5
+2.6
N
1959
1960
OFFICE BUILDING VACANCY
4.82%
POST WAR PEAK
1960
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
VACANCY IN PERCENTAGE
4.50%
4.82%
1959
1960
COMMODITY PRICES
INDEX 1947 - 1949 = 100
120.0
POST WAR PEAK
1959
130
120
110
100
90
80
70
60
0
120
119
118
119.5
BUILDING MATERIAL PRICES
INDEX 1947 - 1949 = 100
135.8
POST WAR PEAK
1960
136
135
134
133
132
131
130.2









PURCHASING POWER OF DOLLAR
1939 Dollar = 100 Cents

1939 . . .	$1.00	1950 . . .	$.58
1940 . . .	.99	1951 . . .	.54
1941 . . .	.94	1952 . . .	.52
1942 . . .	.85	1953 . . .	.52
1943 . . .	.80	1954 . . .	.52
1944 . . .	.79	1955 . . .	.52
1945 . . .	.77	1956 . . .	.51
1946 . . .	.71	1957 . . .	.49
1947 . . .	.62	1958 . . .	.48
1948 . . .	.58	1959 . . .	.48
1949 . . .	.58	1960 . . .	.47

The Business Activity chart on page 70 is very similar to the Real Estate Activity chart on the front page. It is a graph of the percentage that business is above or below its normal long-term growth level. Currently business is 2.6 percent above the level it would have attained through normal growth of population and other factors. This is no encouragement for the future, however, since business is declining, and will probably continue to do so for the next six months.

The percentage of office buildings that are vacant has reached a postwar high of 4.82 percent. New buildings continue to be built and will be stiff competition for older office buildings that have not been modernized. Vacancies will rise, especially in poorly located older buildings.

Other items more briefly stated: Commodity prices will probably remain about the same or fall. . . Building material prices will probably continue their downward trend. . . Lumber prices will continue to be uncertain with fewer housing starts next year and overproduction of lumber. . . Suburban encroachment will push farm taxes higher. . . Because returns are low on farms they are overvalued. . . The purchasing power of the dollar may not change.

The table below shows the probable selling price of a house that sold for $12,000 in 1947-49. The latest information is for November and reveals that its price has fallen to $15,340 from the postwar high of $15,700 in February. We have found that the cost of building a house new tends to lead changes in the prices of existing houses. Therefore, the selling price of an existing house will remain the same or fall, unless total building costs resume their upward climb.

DATE	TREND IN SELLING PRICE	PROBABLE SELLING PRICE OF A HOUSE THAT SOLD FOR $12,000 IN 1947-49 PERIOD	DATE	TREND IN SELLING PRICE	PROBABLE SELLING PRICE OF A HOUSE THAT SOLD FOR $12,000 IN 1947-49 PERIOD
1947-49	100.0	$12,000	Jan. '59	128.2	$15,380
1913	39.9	4,790	Apr. '59	128.9	15,470
1918	34.0	4,080	July '59	129.4	15,530
Feb. '29	77.1	9,250	Oct. '59	130.1	15,610
June '32	34.6	4,150			
June '34	39.9	4,790	Jan. '60	130.2	15,620
July '37	46.6	5,590	Feb. '60	130.8	15,700
Apr. '38	43.9	5,270	Mar. '60	130.6	15,670
Mar. '41	43.3	5,200	Apr. '60	130.1	15,610
Oct. '48	104.5	12,540	May '60	129.4	15,530
Oct. '53	118.9	14,270	June '60	129.6	15,550
Oct. '54	121.4	14,570	July '60	129.8	15,580
Oct. '55	124.1	14,890	Aug. '60	129.4	15,530
Oct. '56	123.2	14,780	Sept. '60	128.9	15,470
Oct. '57	126.1	15,130	Oct. '60	128.1	15,370
Oct. '58	127.3	15,280	Nov. '60	127.8	15,340